The new clearing dimension under EMIR: *Legal certainty and full flexibility through trade registration*

Interview with Peter Reitz, CEO, European Energy Exchange (EEX) and European Commodity Clearing (ECC)

The European Market Infrastructure Regulation (EMIR) is a key element of Europe's response to the financial crisis. With it come new rules and requirements that impact energy trading at exchanges and OTC alike, and constitute a major compliance issue for the industry. Peter Reitz, CEO of the European Energy Exchange (EEX) as well as CEO of European Commodity Clearing (ECC), one of Europe's major energy clearing houses, gives an outlook on the new EMIR-world:

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Trading Places: *Are you happy about EMIR? Will it help boost your business?*

Peter Reitz: EMIR has been first and foremost the result of a political decision, and must be seen in line with similar legislation around the world. It derives directly from the commitments the heads of state and government of the G20 made in September 2009 in Pittsburgh at the height of the financial crisis. As part of the system, we are delighted to contribute to more stability and integrity in the markets. However, we have always made it very clear that energy trading did not trigger the crisis, and should therefore be widely exempted from the full application of EMIR. In addition, we are convinced that our clearing services provide a true extra added value to our customers who widely value the risk minimisation and post-trading advantages of clearing. Even though the mandatory clearing provisions of EMIR are not being applied yet, voluntary clearing has steadily increased over the last couple of years, and continues to do so. Nevertheless, EMIR will certainly help augment the overall clearing volume in the future, and ECC is prepared to fulfill its role as a risk minimising central counterparty for an even larger number of cleared contracts.

TP: *How does EEX/ECC react to EMIR?*

PR: ECC has put a significant amount of work and effort into amending its governance rules, policies and procedures in order to meet the new EMIR requirements. We submitted our application to become an EMIR-regulated central counterparty to the German Financial Supervisory Authority (BaFiN) in September 2013.

We expect to receive the necessary EMIR clearing license in the course of 2014, and will start our trade reporting thereafter in due course. With the granting of the EMIR license, ECC will continue to provide reliable clearing services across Europe on a long term basis.

TP: *What does EMIR mean for your customers?*

PR: Clearing has always been an integral part of exchange trading. Now, clearing for off-exchange traded standardised financial contracts – OTC trades – becomes mandatory under EMIR. This also comprises non-financial companies, if the traded OTC volume exceeds a threshold of three billion euros. Importantly, once this threshold is crossed, the clearing obligation applies to the entire volume and not only to the trades exceeding the threshold. In this context, many of our customers are currently taking steps to establish effective EMIR threshold and liquidity management systems.

As EEX/ECC, we are well prepared for this situation as we have already been offering the possibility of the registration of OTC trades for clearing purposes for a few years. Against the background of the entry into force of EMIR, we have now further specified our trade registration rules. The new "trade registration" option helps our customers to better comply with the new regulatory framework.

TP: *In practical terms, what is "Trade Registration" at EEX/ECC about?*

PR: Generally, trade registration provides the possibility for our customers to conclude a trade at the exchange by registration. With the registration, bilateral OTC contracts will be converted - by an exchange of contracts - into standardised exchange derivative contracts. These standardised exchange derivative contracts are not considered OTC-derivatives under EMIR.

The conversion can be done in two ways. One option is the conclusion of an exchange trade via direct registration of a trade in the EEX system by mutual consent. Such a deal will not be treated as an EMIR OTC derivative transaction. Another option is to replace an existing OTC transaction by a standardised exchange contract. The initial OTC deal ceases to exist and will be entirely replaced by an exchange contract. Both possibilities of trade registration provide for full flexibility and can be used at the convenience of the involved trading participants. In addition, the registration can be done via EFETnet's Clearing Registration Service (eXRP) and Trayport's Clearing Link.

TP: *What are the main benefits of "Trade Registration" for OTC trading?*

PR: Legal certainty is the real key element. All contracts that are registered at EEX and cleared via ECC will not be taken into account for the calculation of the three billion euro EMIR threshold. This, in turn, allows for smooth and flexible portfolio management, and helps avoid the entire volume having to be mandatorily cleared ex-post. Or to put it simply: Voluntary clearing avoids mandatory clearing. Hence, it is for each trading company to decide when and which volume it wants to clear. In addition, all other clearing advantages, including risk minimisation, anonymity and post-trading services will also be to the benefit of the trade registration user. The same applies to ECC's cross-commodity margining that helps to significantly reduce the overall costs for our members.

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